CHAPTER 8
The "it costs too much" argument

THE FORM OF THIS ARGUMENT IN PUBLIC DEBATE

Lurking behind much of the debate on child care is the sheer cost of a comprehensive child care program. Child care is expensive and good child care is even more so. Thus, when Canadian policy makers have considered expanding funding for child care, they may have drawn back in part because of this concern. Instead, they have tended to offer policies that sound impressive but amount to only minor expansions of the currently haphazard and inadequate programs.

For example, Martha Friendly (2001) notes that, "[i]n 1984, 1986, and 1995, three successive federal governments announced that a national strategy for child care would be developed, and each time no such policy materialized" (p. 32.). In 1984, just before losing the next election, the Liberal government established a Task Force to examine child care policy. When the Task Force reported two years later, it proposed a comprehensive program of publicly funded child care to be available to all children from birth, at an eventual cost in excess of $11 billion annually.

In anticipation of this proposal, the new Conservative government had already established its own federal committee in 1986. This committee's report in 1987 was much more modest in its aims and did not involve enough new money to fund a significant expansion in child care. When the Conservative government proposed legislation based on this report, its lack of comprehensive coverage, absence of national standards, and its encouragement of for-profit care caused child care activists to oppose the proposal. This legislation died when the next election was called.

Finally, the incoming Liberal government in 1993 had committed itself to a significant expansion of regulated child care in the Red Book (the Liberal's election document). But the scheme foundered when funding for child care was cut back and rolled into the block funding of the Canadian Health and Social Transfer. In the midst of concern about the deficit, there was little enthusiasm for any expansion of federal child care funding. The provinces (with the exception of Quebec) were hamstrung by cuts in federal transfer payments and were hard-pressed to come up with increases in child care funding that did more than just compensate for inflation.

The situation could appear to be unchanged today (although modest amounts of additional federal funding for regulated child care were announced as this manuscript went to press). Canadian governments are still concerned about the reality of accumulated public debt and the possibility of future deficits. Any new money that appears in government coffers will have plenty of claimants among existing programs (Medicare being a prime example), making any expansion of child care funding problematic. Furthermore, new taxes have been anathema to conservative-minded governments that have focused on tax cuts in recent years, rather than on expanding funding for social programs. "Competitiveness" is the new watchword, and Canadians are warned on a regular basis that our high taxes make Canada a difficult place to do business.

Those who oppose child care are quick to point to the high cost of comprehensive programs in arguing against them. For example, in a letter to the National Post, Adrienne Snow, from the National Foundation for Family Research and Education wrote:

> A wealth of economic data suggests that the high taxes needed to pay for universal day care can produce such a profound drag on the economy and on job creation that any "head start" on life children may get from attending early childhood education programs is likely to be cancelled out by the effects of graduating into economies characterized by the rampant unemployment that plagues many of the universal day care-providing countries of western Europe (May 11, 2000).

Opponents of high taxes and the welfare state are quick to condemn funding for child care. For example, in a controversial article, Sherwin Rosen (1996) argued that Swedish expenditures on child care were too high, endangering that country's economic health:

> The efficiency losses may be substantial, perhaps as large as half of the direct expenditures on these programs. Whatever those may be, there is evidence that child-care subsidies are too large and that a reduction accompanied by a budget balancing reduction in marginal income taxes would increase efficiency (p.732).

WHY IS CHILD CARE SO EXPENSIVE?

Good quality child care and early childhood education services are expensive. The reason is that child care is a very labour-intensive activity requiring direct interaction between teachers and children. Thus, child care and education are unlikely to benefit from the improvements in technology that keep costs down in other parts of the economy. Since labour costs usually rise faster than the consumer price index, the real cost of child care will continue to rise over time.

What are the current facts about the cost of child care? A spot in a regulated child care centre in Canada for a pre-schooler (a child over the age of 3) in 1998 cost $5400 per year (costs varied significantly across the country) (Friendly, Beach & Turiano, 2003). Allowing for inflation, this cost would be about $6000 in 2002. Even in unregulated, unsupervised family home child care, the costs are significant and typically runs between 60% and 75% of the rate in regulated, supervised centres.

These costs do not disappear if mothers care for children in their own homes. Parental care also uses time, and that time is valuable. When mothers stayed at home full time with their children, the Canadian economy lost the enormous market productivity of these women (of course fathers might just as easily have stayed at home with children, but this has not generally happened in Canada). The real cost to the Canadian economy of returning to such a situation would be a staggering loss of valuable goods and services these women and men currently produce.

In chapter 6, we estimated the contribution to G.D.P. of mothers with young children now in the labour force at about $53 billion, about 5% of G.D.P. When we further considered the reduction in investment in the long run in a now smaller economy, the estimate of the loss was $83 billion, or about 7.5% of G.D.P. Put another way, a large part of Canada's global competitiveness is due to the productivity of its working parents. It "costs too much" not to have these parents working.

But if we can't afford to return mothers to the home to care full time for their young children, aren't there cheaper ways to provide that care? After all, the majority of employed mothers with young children do not purchase the high cost of regulated early childhood education and services that we recommend. Instead, they use the relatively cheaper services provided by unregulated caregivers who either care for children in their own homes or come to the children's homes.

The unfortunate reality is that in child care, as in many other things, you get what you pay for. Certainly, there are some competent unsupervised caregivers providing informal care in Canadian neighbourhoods. But most of these providers are untrained and have few other opportunities in the workforce. Few of them have the skills needed to design and deliver the enriched early educational experiences required by the young children in their care. Most working families do not have the income to purchase the high quality child care that would benefit their children. As we discussed in chapter 3, the period of time during which parents with young children are employed and paying for child care is when families are under the most extreme financial pressures. Yet the payoffs to children and to the Canadian economy in the long run require that those children receive higher quality care than their parents can afford to purchase.

BUT CAN GOVERNMENTS AFFORD THE HIGH COST OF CHILD CARE?

The fundamental problem with any argument based upon the high cost of child care is that it rests on a flawed view of what child care is. If child care were a luxury consumption good, like a marina or a golf course, then it would be correct to ask whether or not we could afford this kind of high-end public consumption. But child care is more appropriately seen as an investment in productivity, both today and in the future. In that sense, it is a cost of doing business. And like any business expense, the correct question is whether the payoff justifies the expenditure.

As an investment in present productivity, good child care allows mothers to be employed and to have families. Having mothers in the labour force has improved Canadian productivity and ultimately Canadian competitiveness. The continuing expansion of labour force participation for women expands G.D.P. and Canadian well-being. If they have access to good child care, women will no longer have to choose careers that provide temporary incomes until their children are born, working at jobs that use their skills in relatively low level ways so that they can leave and re-enter the labour force as the demands of their families dictate. These women can increasingly move into high-skill high-education jobs, which may explain their increasing representation in law and medicine. By providing a larger pool of high talent applicants for top positions,the provision of good child care is an important factor in Canadian productivity.

Child care expenditures also have to be seen as an investment in the future workplace productivity of today's children. Children who receive better child care grow up to be more productive citizens and workers. We are beginning to understand the important effects of early educational experiences on future outcomes, both in terms of future educational achievements and eventually in terms of better productivity. But our public programs do not—with the exception of Quebec—reflect that understanding. In our 1998 study, we documented the fact that while Canadians spent $42 billion on education once children entered school (the figure is for public and private spending on education from kindergarten through university),public spending on child care totalled only about $1 billion (the figures would be considerably higher in 2002,largely because of the significant increase in spending in Quebec).

An investment project is either a good one (because it has a rate of return that exceeds the market cost of funds) or a bad one (because its rate of return is too low). If the project is a good one,then a larger project is a better project because the profits are correspondingly higher. When developers build more houses rather than fewer houses, they do so precisely because the investment is profitable,so that a larger investment is correspondingly more profitable than a smaller investment. In this context, then, the issue is not total cost, but whether child care represents a good investment in working women and in children.

Suggesting that good child care is beyond Canada's means is "penny wise and pound foolish". The error results because the problem is being framed in the wrong way. Critics of child care are making the mistake of viewing early childhood education and care as if it were a program providing consumption goods to families. Instead, it is more useful to view good child care as an investment in Canada's productivity. Good child care allows parents to hold down jobs and produce Canada's goods and services, secure in the knowledge that their children are receiving the care they require. And good child care provides the skills and human capital needed by young children to do well in school and to prosper in their future work lives.

BUT SHOULD THE GOVERNMENT PAY FOR CHILD CARE AND EARLY EDUCATION?

Both quotations in the first section of this chapter suggested that the taxes necessary to fund child care would create a drag on the economy. But both implicitly assume that child care is in some sense essentially unproductive. However, if child care represents a productive investment,then the returns are more than adequate to fund the cost.

In the end,the argument returns to the basic discussion of public benefits that we provided earlier. If child care is essentially a private good,then critics are correct in arguing that it should not be in the public sector, and that moving it there would be inefficient. But we have argued that child care has important public benefits,and it is these benefits that justify public expenditures.

THE BENEFITS AND COSTS OF GOOD CHILD CARE

When we did our cost-benefit study, (Cleveland & Krashinsky, 1998), we costed a national program providing good child care to all children between the ages of 2 and 5,and estimated that there would be $5.3 billion in new government expenditures. Such a program would provide the required amount of care to all children whose parents were employed, while families with a parent at home full time would receive an early educational program for their children.

The benefits from such a program would have provided about $2 in new benefits for every $1 in new government expenditure (costs would be shared in some way between the federal and provincial governments). If we were to redo these calculations for 2002, the outcome would have been the same, although of course both the costs and benefits would have risen approximately by the rate of inflation, which ran about 9.3% over the four year period between 1998 and 2002. The new costs might,in fact, be somewhat less than $5.3 billion, because in the interim,the government of Quebec has developed a comprehensive child care program of its own. Any new federal program would however inject new money into this program.

It is worth reviewing the source of the benefits that we identified. There are two distinct benefits.First,the quality of the early educational experience of almost all children in this age range would improve dramatically. Children whose mothers are currently employed would move into higher-quality publicly-funded child care. Even children already in child care centres or in supervised home care would see the quality of their care rise in most cases. However, the biggest gains would be for children currently cared for in a haphazard way by low-paid underqualified and unregulated caregivers. Children whose mothers are not currently employed would also receive early educational programs. The largest benefits would accrue to children who do not currently participate in such programs. When we added up these benefits in 1998, they totalled roughly $4.3 billion.

It is important to emphasize that these benefits are difficult to estimate. We used several methods to come up with these numbers, but the real value of the benefits is likely to be somewhat different. However, because our estimates were extremely cautious, we would expect the true value of the benefits to be significantly higher than what we put in the 1998 report.

The second set of benefits revolved around the increases in employment among mothers now eligible for publicly funded child care. The high cost of child care—even the low quality care provided by unregulated neighbourhood caregivers—is a significant barrier to the entry of mothers with young children into the labour force. That so many mothers are employed despite these barriers is testimony to the significant benefits to families and children to be had from the incomes earned by those mothers. More public funding for child care would increase labour force participation by mothers. Some of those now at home full time would choose to enter the labour force;some of those employed part time would choose to increase their hours. We derived numbers for these changes based on a number of existing studies which estimated the effect of a reduction in the cost of child care on labour force participation. The increases in hours worked can be valued using the wages earned by employed mothers. We then increased these wages to take into account the increases in future productivity derived from the additional experience and on-the-job training received by these mothers. When we added up these benefits in 1998,they totalled roughly $6.2 billion.

The total cost to the government of the child care program would have come to $7.9 billion in 1998. We assumed that parents would pay roughly 20% of the cost of the program. This number came from the 1993 Liberal election platform, which used this percentage to compute the cost of their child care proposals. Again, we chose a more conservative approach in assessing the costing of the program to the government. Subtracting 20% from $7.9 billion leaves a public cost of $6.3 billion. Since governments in 1998 were already spending roughly $1 billion on child care,this is how we came up with the net figure of $5.3 billion new public expenditures on child care. These new funds need not all appear in the first year. The Quebec child care program was phased in one year at a time, allowing for a more gradual ramping up of expenditures.

The total increase in benefits totalled $4.3 billion plus $6.2 billion, or about $10.5 billion. Comparing this with the $5.3 billion in new public money, we derived our figure of $2 in benefits for every $1 in new costs.

The cost of the proposal we have made is somewhat less than the cost of comprehensive proposal of the Liberal Task Force in the 1980s (Cooke,Edwards & Rose-Lizée,1986). The proposals in the Cooke Report would have cost about $17 billion in 2002 dollars. The reason for this higher cost is that the Cooke Report provided free full-day child care for all children, including infants and school age children while we limited our proposal to children ages 2 to 5 and provided only part-day early education to children whose parents did not enter the labour force.

WOULD PUBLICLY FUNDED CHILD CARE MAKE CANADA UNCOMPETITIVE?

It has become fashionable among socially conservative politicians and ideologues to use the argument of international competitiveness to attack all social programs. Stripped of the rhetoric, these arguments go approximately as follows: public programs require funds, and these funds are raised by taxes. Taxes are a cost of doing business in Canada, and furthermore, higher taxes raise the cost of doing business in Canada and make us less competitive. Since the United States is our major trading partner, Canadian businesses are competing with American firms, and any public programs in Canada that are not also present the U.S. are seen as making us less competitive.

This argument is fundamentally flawed, although it has become a part of a general attack on the entire Canadian public sector. The flaw in the argument is that it completely ignores the expenditure side of the public sector. By looking at only the cost side, it naturally makes any public expenditure look bad.

For example, the existence of a publicly-funded medical care system in Canada is certainly part of the cost of doing business in Canada, because Canadian taxes pay for the program. But the system also delivers direct benefits to Canadian firms. Workers in those firms are healthier and thus, are able to work more effectively. Firms do not have to set up and help fund medical care insurance, and this saves a great deal. In fact, since the public sector is able to deliver medical care in Canada at a lower cost than health care in the U.S. with no lower level of medical outcomes in Canada, the existence of our Medicare system can better be seen as a competitive advantage, rather than a disadvantage.

The same argument could be made for the public education system in Canada. To the extent that this system is effective, it prepares the workers who then take jobs with corporations in Canada. A good educational system is a critical asset in remaining internationally competitive. If high-skilled workers in Canada feel comfortable sending their children to public schools in Canada, they will accept paid lower wages to work here than they otherwise would need if they had to send their children to private schools. A good educational system will draw corporations to Canada, even though their workers in fact pay the taxes to sustain that system.

It is easy to see how this argument extends to child care services. Good child care services cost money and the taxes that support those services do have a negative impact on competitiveness. But the benefits of a good child care system have a positive effect on competitiveness, and if the benefits outweigh the costs—as we have argued they do—then the net effect is to make Canada more competitive, not less. For example, for a firm thinking of locating in Canada, a good child care program makes available a larger potential workforce of skilled workers by freeing up able women to work at long-term high-skill jobs. A firm also needs good workers in the future, and the positive effects of child care on children help make them better, more productive workers. Thus, despite the cost of taxes necessary to pay for good child care, the benefits on balance make Canada more—rather than less—internationally competitive.

Canada’s strong social programs are what make Canada a good place to live and work. In that sense, they make us more competitive, not less so. A child care program has two strong benefits, both of which attract business to Canada rather than driving it away. Good child care allows mothers to enter the labour force and encourages them to participate in higher education and training to prepare for a life in that labour force. The participation of skilled women in the labour force has made Canada the productive economy it is today and is in fact responsible for a good part of the growth of our economy over the past 35 years. That skilled workforce is one important reason why corporations choose to set up business in Canada.

The second benefit of good child care lies in the early educational experiences that it provides to young children. Armed with these experiences, these children are more successful learners when they enter school and derive more from their education. These children go on to remain in school longer and acquire more of the skills that make them effective workers in the future. The strength and productivity of our workforce in the future is another reason why corporations choose to locate here. Further still, high quality experiences for their own children are a magnet for entrepreneurs and executives looking for good places to live.

Finally, it should be emphasized that while the $6.3 billion annual price tag on our proposal (not all of that is new money, of course) is certainly significant, it is hardly extraordinary. The figure is roughly $\frac{1}{2}$ of 1 percent of Canada's G.D.P. (and G.D.P. itself would rise as more parents enter the labour force). Many OECD countries spend more than that on child care and early education.

SUMMARY OF THE ARGUMENTS

The argument that "it costs too much" exploits the fear that many Canadians have about the size of the public sector and the potential for a return to deficit spending. But although good child care is expensive, it will strengthen the Canadian economy rather than weaken it. Our arguments in this chapter can be summarized as follows:

- Spending on child care is an investment rather than a consumption expenditure. The test of any investment is whether the rate of return justifies the expense.
- Good child care generates two types of returns. The first is the productivity of the parents freed to enter the labour force. The second is the increase in future productivity of children who receive early educational experiences.
- When benefits and costs are both accounted for, public expenditures on good child care generate at least a 2-for-1 return, producing $2 in benefits for every $1 in new spending.
- Competitiveness is enhanced rather than compromised because good child care makes Canada a better place for companies and their executives to locate.